

Message Text

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ACTION EB-04

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C O N F I D E N T I A L BONN 03227

LIMDIS GREENBACK

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: GDS

TAGS: EGEN, GW

SUBJECT: FINANCE MINISTRY STATE SECRETARY POEHL ON
MONETARY SITUATION.

1. SUMMARY: STATE SECRETARY POEHL TOLD ME ON FEBRUARY 25 THAT, ESPECIALLY IN LIGHT OF UNCERTAINTIES IN THE UNITED STATES, GISCARD AND SCHMIDT CONSIDERED THE MAINTENANCE OF FRANCE IN THE SNAKE OF PRIMARY IMPORTANCE. HE SAW NO REASON WHY RESOURCES AT HAND WOULD NOT BE ADEQUATE TO KEEP THE FRANC IN THE SNAKE FOR THE IMMEDIATE FUTURE. HE FORESAW, HOWEVER, THE POSSIBILITY OF PERIODIC ADJUSTMENTS IN SNAKE PARITIES EVERY TWO OR THREE YEARS. END SUMMARY.

2. DURING MY MEETING WITH STATE SECRETARY POEHL ON FEBRUARY 25, HE WAS RELAXED AS TO THE POSSIBILITY FOR THE IMMEDIATE FUTURE OF KEEPING THE FRENCH IN THE SNAKE. HE SAID THAT THE FRG, INCLUDING THE CHANCELLOR HIMSELF, THOUGHT THAT MAINTENANCE OF THE SNAKE, ALTHOUGH NOT VITAL ITSELF, WAS OF GREAT PSYCHOLOGICAL IMPORTANCE IN AN
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UNCERTAIN PERIOD. HE POINTED OUT THAT THE FRENCH HAD

ACQUIRED \$6 BILLION IN FOREIGN EXCHANGE LAST YEAR, OF WHICH THEY HAD SO FAR ONLY USED TWO. WITH THE HELP OF THE BUNDESBANK HE SAW NO REASON WHY THE PRESENT SNAKE PARITIES COULD NOT BE MAINTAINED IN THE COMING MONTHS. THE GERMANS HAD NO INTENTION OF REVALUING WITHIN THE SNAKE, AND THE FRENCH HAD NO PLANS FOR DEVALUING.

3. POEHL SAID THAT HE KNEW THAT SCHMIDT AND GISCARD AT NICE DISCUSSED THEIR CONCERN OVER WHAT THEY CONSIDER TO BE AN EXCESSIVE DEGREE OF SELF-FLAGELLATION AND SELF-DOUBT (INCLUDING LOCKHEED, ETC.) IN THE UNITED STATES. THEY BELIEVE IT WAS THEREFORE VITAL IN THIS PARTICULAR PERIOD FOR THE FRENCH AND THE GERMANS TO MAINTAIN THEIR CLOSEST IDENTITY OF INTEREST. POEHL SAID, THAT THIS WOULD NOT PRECLUDE, IN THE SPIRIT OF RAMBOUILLET, A CONTINUED DIALOGUE WITH THE U.S., JAPAN, AND OTHER MAJOR POWERS. HE SAID, OF COURSE, THAT CLOSE RELATIONS BETWEEN CENTRAL BANKS HAD ALWAYS BEEN THE RULE. IN HIS VIEW, OF EQUAL IMPORTANCE WAS THE CLOSE AND FREQUENT CONSULTATIVE ARRANGEMENT WHICH WE NOW HAD. IN THIS CONNECTION, HE EXPRESSED HIS SATISFACTION WITH THE COOPERATION OF TREASURY AND UNDER SECRETARY YEO. IN A SENSE, THEREFORE, IN POEHL'S OPINION, A MONETARY "DIRECTORY" ALREADY EXISTED, ALTHOUGH WE WOULD NOT WANT TO MAKE TOO MUCH OF IT OUT OF RESPECT FOR THE SENSITIVITIES OF SMALLER COUNTRIES. POEHL CONSIDERED IT ONLY NATURAL THAT IF THE RATE OF INFLATION IN A COUNTRY (I.E. FRANCE) WERE TO BE RUNNING FOUR OR FIVE PERCENT AHEAD OF THAT OF THE FRG, CERTAIN ADJUSTMENTS WOULD EVENTUALLY HAVE TO BE MADE IN THE SNAKE. HE DID NOT FORESEE ANY SUCH ADJUSTMENT HAPPENING UNTIL AFTER THIS AUTUMN, AND HE DID NOT SEE WHY THEY COULD NOT CONTINUE TO BE MADE EVERY TWO OR THREE YEARS TO DEAL WITH FURTHER DIVERGENCES IN ECONOMIC DEVELOPMENTS. HE CAUTIONED, HOWEVER, THAT SUCH CHANGES WOULD ONLY BE MADE AT AN APPROPRIATE TIME WHEN NO ONE EXPECTED IT.

4. ON THE DOLLAR, POEHL THOUGHT THE DOLLAR WAS NOT WEAK; THE DM WAS STRONG. IN FACT THE DOLLAR HAD HELD UP EXTREMELY WELL CONSIDERING BANK PROBLEMS, ETC. THERE
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HAD BEEN FEARS THAT THESE FACTORS MIGHT HAVE CAUSED A CAPITAL OUTFLOW FROM THE U.S. FOR WHICH THE FRG WAS PREPARED SINCE IT WOULD BE A "SPORADIC" EVENT AS FORESEEN AT RAMBOUILLET.
HILLENBRAND

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Margaret P. Grafeld
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